



2004 ANNUAL REPORT

Joint Enforcement Strike Force on the Underground Economy

A Report to the California Legislature

Employment Development Department

June 30, 2005

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EXECUTIVE SUMMARY

This report provides a summary of activities and outcomes from the Joint Enforcement Strike Force (JESF) in accordance with Section 329(d) of the California Unemployment Insurance Code (CUIC).

In October 1993, an Executive Order established the Joint Enforcement Strike Force on the Underground Economy (Strike Force) to combat the underground economy by pooling resources and sharing data among the State agencies charged with enforcing licensing, labor, and tax laws.

On January 1, 1995, Section 329 was added to the CUIC, which placed the provisions of the Executive Order into law. Strike Force members are the Employment Development Department (EDD), which is the lead agency, Department of Consumer Affairs (DCA), Department of Industrial Relations (DIR), Franchise Tax Board (FTB), Board of Equalization (BOE), and Department of Justice (DOJ). Assembly Bill (AB) 202 (Chapter 180, Statutes of 2001) added the Department of Insurance (DOI) as a member of the Strike Force effective, January 1, 2002.

The underground economy affects businesses and workers throughout the State of California. Businesses participating in the underground economy by paying cash to avoid taxes and other required payments such as workers' compensation insurance and unemployment insurance are able to undercut their competition and gain a competitive advantage over other businesses that report and pay their fair share. When a business operates in the underground economy, its workers may have difficulty qualifying for workers' compensation insurance coverage, State disability insurance, or unemployment insurance benefits when otherwise eligible. These employers may also fail to comply with workers' rights, labor, and safety laws.

The goals of the Strike Force are to:

- Eliminate unfair business competition.
- Protect workers by ensuring that they receive all benefits to which they are entitled by law relating to wages and hours, health and safety, and income replacement.
- Protect the consumer by ensuring that all businesses are properly licensed and that they adhere to the State's consumer protection regulations.
- Reduce the burden on law-abiding citizens and businesses by ensuring that all businesses and individuals comply with the State's licensing, regulatory, and tax laws.
- Increase compliance with the State's tax laws to maximize the State's General and Special Fund revenues.

The following table summarizes activities of the various programs that comprise the JESF.

| JESF Program Activities and Accomplishments During 2004¹ | | | | |
|--|--------------------------|---------------------|----------------------------|--------------------------|
| Program | Number of Investigations | Number of Citations | Amount of Citations | Amount of Assessments |
| Employment Enforcement Task Force (EETF) | 441 | 341 ² | \$2,126,950 ³ | \$9,706,037 ⁴ |
| Construction Enforcement Project (CEP) | 188 | N/A | N/A | \$16,155,481 |
| Janitorial Enforcement Program (JEP) | 16 | N/A | N/A | \$3,929,320 ⁵ |
| Targeted Industries Partnership Program (TIPP) | 62 | 69 ⁶ | \$367,250 ⁷ | \$3,136,531 |
| EDD Criminal Tax Enforcement Program (CTEP) | 126 | N/A | N/A | \$3,493,049 |
| DIR, Department of Labor Standards Enforcement (DLSE), Bureau of Field Enforcement (BOFE) ⁸ | 6,816 | 2,694 | \$20,918,075 ⁹ | N/A |
| DIR, Division of Occupational Safety and Health (Cal/OSHA) ¹⁰ | 7,357 | 7,483 | \$32,026,541 ¹¹ | N/A |
| Contractors' State License Board (CSLB) ¹² | N/A | 1,487 | \$1,989,100 | N/A |
| Franchise Tax Board (FTB), Investigations Bureau ¹³ | 400 – 500 | N/A | N/A | \$15,800,000 |

Individual JESF Program Highlights

The EETF was the first joint enforcement project created by the Strike Force. Participating agencies include EDD and DIR with strong support from the Contractors' State License Board within DCA. The goal of EETF is to identify and bring into compliance those individuals and businesses participating in the underground economy that are in violation of payroll tax, labor, and licensing laws. In 2004, the EETF referrals to EDD's audit program resulted in 47 fraud determinations, uncovered \$66,633,578 in unreported wages, and discovered 3,512 previously unreported workers.

¹ This table includes only JESF programs that collect statistical data that could be presented in this report.

² This figure includes citations also listed under DLSE statistics.

³ This figure includes citations also listed under DLSE statistics.

⁴ This figure represents assessments for 339 audits completed in 2004 on EETF referrals.

⁵ This figure represents assessments for 270 audit completed in 2004 on CEP referrals.

⁶ This figure includes citations also listed under DLSE statistics.

⁷ This figure includes citations also listed under DLSE statistics.

⁸ These statistics represent the entire program, not exclusively Underground Economy Operations (UEO) activities.

⁹ This figure includes citations also listed under EETF statistics.

¹⁰ These statistics represent the entire program, not exclusively UEO activities.

¹¹ This figure includes citations also listed under EETF statistics.

¹² These statistics represent the entire program, not exclusively UEO activities. The CSLB statistical data was available only as fiscal year information. This information reflects fiscal year 2003/2004.

¹³ These statistics represent the entire program, not exclusively UEO activities.

The CEP was established because the on-site investigation technique used by EETF for identifying tax and employment fraud, while effective in most industries, was not as effective in the construction industry because construction businesses frequently change job sites. By the time information is developed that a contractor is probably operating in the underground economy, work at the job site has often been completed, and an on-site inspection would not discover any tax or labor law violations. In 2004, the CEP referrals to EDD's audit program resulted in 30 fraud determinations, uncovered \$106,163,649 in unreported wages, and discovered 5,317 previously unreported workers.

The JEP was created to address underground economy activities in the janitorial industry. In 1998, the EDD became aware of worker abuses in this industry due to complaints filed by competitors citing unfair competition with cash pay janitorial firms. Three underground economy janitorial businesses were audited. The results proved that significant noncompliance with the tax laws existed in the janitorial industry, and additional staff were assigned to the project. In 2004, the JEP referrals to EDD's audit program uncovered \$48,351,502 in unreported wages, and discovered 2,706 previously unreported workers.

The TIPP was established in 1992 as a multi-agency enforcement and educational program targeting the garment manufacturing and agricultural industries. Strike Force staff from EDD was added to TIPP in 1996. These industries have a history of labor law and payroll tax violations. The original TIPP partners include the United States Department of Labor (USDOL), Wage and Hour Division; DIR, Division of Labor Standards Enforcement; and Division of Occupational Safety and Health (Cal/OSHA). In 2004, the TIPP referrals to EDD's audit program resulted in 17 fraud determinations, uncovered \$26,296,894 in unreported wages, and discovered 2,062 previously unreported workers.

The EDD CTEP's sworn peace officers focus on the most serious crimes committed by California employers. The CTEP investigates employers who engage in the underground economy. These employers commit violations in many ways such as underreporting their employees to EDD, paying employees in cash, and not reporting this action to EDD. The CTEP partners with other law enforcement agencies with shared goals for investigation, prevention, detection, and criminal prosecution.

The DLSE, BOFE, is charged with the responsibility to vigorously enforce minimum labor standards in order to ensure California workers are not required or permitted to work under substandard, unlawful conditions. It also protects California's employers who comply with the laws from those employers who would attempt to gain an unfair competitive advantage at the expense of their workers by failing to comply with minimum labor standards.

The Cal/OSHA participates in the Strike Force to combat the underground economy through education and enforcement efforts. Efforts that support Strike Force goals include participation in TIPP activities and construction industry sweeps. In 2004, the Cal/OSHA investigated 7,357 businesses and issued 7,483 citations for health and safety violations totaling \$32,026,541.

The CSLB protects consumers by regulating the construction industry through policies that promote the health, safety, and general welfare of the public in matters relating to construction. The CSLB conducted 34 sting operations and 5 sweep operations with Strike Force members. Sweeps resulted in CSLB issuing 25 administrative citations for contracting without a license, and one licensee citation for

aiding and abetting an unlicensed contractor. One notice to appear in criminal court for workers' compensation insurance violations was issued by a district attorney's office. The DLSE issued citations totaling \$13,000 for workers' compensation insurance violations, and EDD initiated three audits for possible tax violations. The 34 sting operations resulted in the issuance of 329 misdemeanor citations and 21 felony arrests. The CSLB referred 1,057 nonlicensee cases to local district attorney's offices and issued 1,487 nonlicensee administrative citations, assessing a total of \$1,989,100 in civil penalties.

The FTB Investigations Bureau receives more than 3,000 leads for criminal investigation annually. With a staff of 40 sworn peace officers, between 400 and 500 cases are kept in active investigation status and/or going through the criminal court system at any one time. The FTB's Investigations Bureau has made assertive efforts to pursue those involved in the underground economy by looking to new and viable leads. They have had success with financial and business reporting documents filed through the United States (U.S.) Treasury's Financial Crimes Enforcement Network. This has resulted in identifying a caseload representing over \$760 million in unreported income currently assigned to investigators.

Collectively, these efforts provide additional General Fund and Special Fund revenues through subsequent collection activities, ensure that workers receive the benefits they are entitled to by law, and provide a deterrent to employers who may consider participating in the underground economy rather than voluntarily complying.

BACKGROUND

Joint Enforcement Strike Force

On October 26, 1993, the Strike Force was established by Executive Order W-66-93. The purposes of the Strike Force are to enhance the development and sharing of information necessary to combat the underground economy; to improve the coordination of enforcement activities; and to develop methods to pool, focus, and target the enforcement resources of all members in support of the enforcement activities of individual agencies.

Subsequent legislation, Senate Bill (SB) 1490 (Chapter 1117, Statutes of 1994), codified the Executive Order by adding Section 329 to the CUIA and established a January 1, 2000, sunset date. The SB 319 (Chapter 306, Statutes of 1999) extended the sunset date to January 1, 2006. Member agencies include EDD, DIR, DCA, FTB, BOE, and DOJ. The EDD Director is the chairperson. The AB 202 (Chapter 180, Statutes of 2001) added DOI as to the Strike Force effective January 1, 2002. In 2004, SB 3020 (Chapter 685, statutes of 2004) removed the sunset provision.

The Strike Force focuses on implementing joint enforcement projects among member agencies. At its inception, the Strike Force initially focused on joint enforcement of payroll tax, labor, and licensing laws in the automotive repair, garment manufacturing, and construction industries. Since that time, the focus has expanded to include bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses, cabinet manufacturers, janitorial, and the building maintenance industry.

Strike Force members recognize the importance of combining enforcement activities with an ongoing educational program. Member Agency staff conduct outreach presentations to business and labor organizations throughout the State and to representatives of local government agencies. These presentations inform a large number of people about Strike Force activities and continue to be an excellent source for leads.

The goals of the Strike Force are to:

- Eliminate unfair business competition.
- Protect workers by ensuring that they receive all benefits to which they are entitled by law relating to wages and hours, health and safety, and income replacement.
- Protect the consumer by ensuring that all businesses are properly licensed and that they adhere to the State's consumer protection regulations.
- Reduce the burden on law-abiding citizens and businesses by ensuring that all businesses and individuals comply with the State's licensing, regulatory, and tax laws.
- Increase compliance with the State's tax laws to maximize the State's General Fund and Special Fund revenues.

California Labor and Workforce Development Agency

Beginning July 2002, with the creation of the cabinet-level California Labor and Workforce Development Agency (Agency), coordination and cooperation between departments within the Agency were greatly improved. The Agency consists of the Agricultural Labor Relations Board, California Unemployment Insurance Appeals Board, California Workforce Investment Board, DIR, EDD, and the Employment Training Panel.

The Agency was formed to:

- Simplify and improve operation of programs that protect and provide services to California's workers and employers.
- Eliminate duplication, achieve cost efficiencies, and promote accountability and program access.

The Agency began a comprehensive strategic planning effort, which identified three initiatives relative to labor law enforcement:

- Improve the coordination and effectiveness of labor law enforcement.
- Develop internal case management systems.
- Improve information sharing between agency programs and the public.

Various strategic planning workgroups have been established and are taking steps toward improving the audit processes within DIR's DLSE and EDD, improving case referrals for criminal prosecutions, creating a system to refer leads among State enforcement programs, and developing a cross-training program for all Agency enforcement staff. Areas for improvement will continue to be identified and addressed in the Agency's ongoing strategic planning process.

Underground Economy

"Underground economy" is a term that refers to those individuals and businesses that deal in cash and/or use other schemes to conceal their activities and their true tax liability from government licensing, regulatory, and tax agencies. Underground economy is also referred to as tax evasion, tax fraud, cash pay, and payments under-the-table or off-the-books.

The actual size of the underground economy is difficult to measure. However, in February 1995, American Demographics estimated for the Internal Revenue Service (IRS) that there was over \$1 trillion in unreported income in the United States. The General Accounting Office (GAO), the investigative arm of the U.S. Congress, conducted a study of tax year 1992 and found the federal tax gap to be \$177 billion. If everyone paid his or her fair share of income tax, the GAO estimated that there would be a 25 percent reduction in personal income tax. A February 2005 report, *California's Tax Gap*, prepared by California's Legislative Analyst's Office, estimates California's income tax gap to be \$6.5 billion.

A 1993 study by Wells Fargo Bank estimated over \$140 billion in unreported income and \$3 to \$6 billion in lost revenue for the State of California.

On January 3, 2005, Barron's Online featured the article, *Going Underground*. This article states: "America has two economies, and one is flourishing at the expense of the other. First, there's the legitimate economy, in which craftsmen are licensed and employers and employees pay taxes. Then there's the fast-growing underground economy, where millions of nannies, construction workers and others are paid off-the-books, their incomes largely untaxed. The best guess as to the size of the output of this shadow economy is about \$970 billion or nearly 9% that of the real economy. It should soon pass \$1 trillion."

A 2002 report published by the Economic Round Table (a nonprofit, public-policy research organization in Los Angeles) states at least 28 percent of the workforce in Los Angeles County is engaged in the underground economy. This translates into \$1.1 billion in lost payments to the Social Security Administration, workers' compensation insurance premiums, and unemployment insurance contributions per year. (http://www.economicrt.org/summaries/workers_without_rights_synopsis.html)

Reports on the underground economy indicate it imposes significant burdens on: (1) the State of California, (2) businesses that comply with the law, and (3) workers who lose benefits and other protections provided by State law when the businesses they work for operate in the underground economy.

When businesses operate in the underground economy, they gain an unfair, competitive advantage over businesses that comply with various business laws. This causes unfair competition in the marketplace and forces law-abiding businesses to pay higher taxes and expenses.

Workers of noncompliant businesses are also affected. Their working conditions may not meet the legal requirements, which can put them in danger. Their wage earnings may be less than those required by law, and benefits they are entitled to can be denied or delayed because their wages are not properly reported.

Consumers can also be affected when contracting with unlicensed businesses. Licensing provisions are designed to ensure minimum levels of skill and knowledge to protect the consumer.

The ultimate impact of the underground economy is erosion of the economic stability and working conditions in this State.

Joint Enforcement Strike Force Annual Report

In the past, this report focused mainly on EDD-led JESF activities. During 2004, a workgroup was formed to develop a JESF Annual Report that would encompass all participating departments and their JESF related activities. Additionally, the 2004 Annual Report was published for both print and Internet distribution. The electronic version contains links to each participating department.

JOINT ENFORCEMENT PROJECTS

The Strike Force is empowered to form joint enforcement teams to utilize the collective investigative and enforcement capabilities of the participating members.

Employment Enforcement Task Force (EETF)

The EETF was the first joint enforcement project created by the Strike Force. Participating agencies include EDD and DIR with strong support from the CSLB within DCA. The goal of EETF is to identify and bring into compliance those individuals and businesses participating in the underground economy that are in violation of payroll tax, labor, and licensing laws. Since its inception, the EETF had focused on the construction, automotive repair, garment manufacturing industries, bars, restaurants, nightclubs, furniture manufacturers, and adult entertainment establishments. In late 1999, the janitorial and building maintenance industry was added to the targeted industry list. Although EETF focuses on industries known to have a high degree of noncompliance, investigations of businesses not included in the target group are also conducted when underground economy activity is suspected.

The EETF agents from each agency jointly conduct on-site investigations of businesses by interviewing owners, managers, and workers to determine if businesses are in compliance with payroll tax, labor, and licensing laws. To minimize the disruption of compliant businesses, the EETF conducts investigations only if there is reasonable belief of violations of the CUIC, Labor Code, and/or the Business and Professions Code.

A system for identifying businesses that are suspected of operating in the underground economy was designed and implemented. There are four major sources of leads: hotline numbers, other government agencies, industry sources, and EETF staff. Statewide hotline numbers are published and advertised for the construction industry and the automotive repair industry. Another statewide hotline number is available for all other industries.

The EETF also maintains close ties with CSLB, Bureau of Automotive Repair (BAR), Bureau of Security and Investigative Services, and Bureau of Home Furnishings & Thermal Insulation, all within DCA.

During 2004, the EETF staff focused on the agriculture, courier, car wash, auto repair, construction, and restaurant industries. The EETF staff investigated businesses in other industries that were suspected of violations.

Table 1

| Employment Enforcement Task Force 2004 Program Results | |
|---|-------------|
| Investigations | 441 |
| Audit Referrals | 310 |
| Labor Code Citations | 341 |
| Labor Code Citation Amounts | \$2,126,950 |
| Audits Completed | 339 |
| Audit Assessments | \$9,706,037 |
| Average Assessment Per Audit | \$28,631 |

Construction Enforcement Project (CEP)

The CEP was established because the on-site investigation technique used by EETF for identifying tax and employment fraud, while effective in most industries, was not as effective in the construction industry. Unlike other industries, which have permanent business locations, construction businesses frequently change job sites. By the time information is developed that a contractor is probably operating in the underground economy, work at the job site has often been completed, and an on-site inspection would not discover any labor law violations.

Our investigative experiences have indicated there are two types of contractors operating in the underground economy. The first type is a licensed or unlicensed specialty contractor with a relatively small operation. This contractor typically has one or two full-time employees plus additional seasonal workers. This employer is usually not registered with EDD and does not provide workers' compensation insurance coverage. The workers are usually paid in cash without deductions, and no payroll taxes are paid. The amount of unpaid taxes attributable to one of these employers is relatively small, but the amount of unpaid taxes attributable to these employers as a group represents a significant amount of the underground economy in the construction industry.

The second type of contractor is typically registered with EDD and provides workers' compensation insurance coverage but only reports and pays payroll taxes on a portion of the workforce. These contractors attempt to appear legitimate and often use sophisticated schemes to hide the unreported payroll in the records. Experience shows these contractors are most commonly engaged in single-family, residential construction. Individually, the amount of unpaid payroll taxes is often high, and collectively, this group constitutes the largest segment of underground activity in the construction industry.

Experience with these cases indicated that CEP investigators needed to become familiar with and learn as much as possible about how business is conducted in the construction industry. As a result, EDD auditors work closely with legitimate contractors, suppliers, and labor organizations to become experts in industry practices and typical schemes.

The CEP goal is to develop techniques that will maximize the detection of construction industry employers operating in the underground economy. The EDD auditors continuously update their knowledge and understanding of common business practices, terminology, typical ratios of material purchases to labor costs, and any other technical information unique to the construction industry.

Table 2

| Construction Enforcement Project 2004 Program Results | |
|--|--------------|
| Audit Referrals | 188 |
| Audits Completed | 270 |
| Audit Assessments | \$16,155,481 |
| Average Assessment Per Audit | \$59,835 |

Janitorial Enforcement Project (JEP)

The EDD became aware of worker abuses in the janitorial industry in 1998 due to complaints filed by competitors citing unfair competition with cash pay janitorial firms. In 1998, three underground economy janitorial businesses were audited, and in 1999, 16 additional underground economy janitorial businesses were audited. The results of these cases proved that significant noncompliance with the tax laws existed in the janitorial industry in Southern California. All of the major janitorial companies in Southern California were identified, the typical schemes used to avoid payroll taxes were revealed, and working relationships were developed with the Pacific Association of Building Service Contractors, the Maintenance Cooperation Trust Fund, and the Service Employees International Union. These organizations are all interested in cleaning up the janitorial industry and have been very supportive.

The AB 613 (Chapter 299, Statutes of 1999) required the Strike Force to include the janitorial and building maintenance industry as a targeted industry beginning in SFY 2000/01. To meet this requirement, the EDD initiated JEP in October 2000. The Strike Force used State Fiscal Year 1998/99 experience in Southern California as a model to develop an approach to determine the level of noncompliance in the janitorial industry throughout California.

The EDD has identified two types of noncompliance in the janitorial industry. One type is unintentional noncompliance where janitorial businesses honestly consider their workers to be legitimate independent contractors. These workers are typically issued a Form 1099 each calendar year, thus leaving a discovery trail for audit staff. In these instances, it is rare that fraud or intent to evade the provisions of the CUIA is found. When EDD encounters this type of situation and determines the workers were in fact common law employees, it is considered a legitimate status issue.

The second type of noncompliance is intentional nonreporting based on a scheme to avoid payroll taxes, labor laws, and workers' compensation insurance premiums. A typical scheme is the payment of wages in cash without documentation. These payments will rarely be found in any business records. While the janitorial industry covers the whole spectrum of business types (office buildings, retail and wholesale establishments, department stores, etc.), we have discovered this scheme most frequently in large grocery and department stores where the contract calls for cleaning and waxing the floors on a regular basis. Typically, the workers do not know whom they work for and usually report to and are paid by a crew leader, foreman, or a subcontractor. In most cases, the actual employer is one or two steps removed from the entity actually contracting with the store for cleaning services. This makes it more difficult for enforcement agencies to identify the true employer.

Table 3

| Janitorial Enforcement Project 2004 Program Results | |
|--|-------------|
| Audit Referrals | 16 |
| Audit Completed | 34 |
| Audits Assessments | \$3,929,320 |
| Average Assessment Per Audit | \$115,568 |

Targeted Industries Partnership Program (TIPP)

The TIPP was established in 1992 as a multi-agency enforcement and educational program targeting the garment manufacturing and agricultural industries. Strike Force staff from EDD was added to TIPP in 1996. These are industries that have a history of labor law and payroll tax violations. The original TIPP partners include the United States DOL, Wage and Hour Division; DIR, DLSE; CAL/OSHA. The EDD's participation in TIPP has been limited primarily to the garment manufacturing industry. Table 4 shows the TIPP results for 2004.

Table 4

| Targeted Industries Partnership Project 2004 Program Results | |
|---|-------------|
| Investigations | 62 |
| Labor Code Citations | 69 |
| Labor Code Citation Amounts | \$367,250 |
| Audit Completed | 78 |
| Audit Assessments | \$3,136,531 |
| Average Assessment Per Audit | \$40,211 |

Criminal Tax Evasion Program (CTEP)

The EDD CTEP's sworn peace officers focus on the most serious crimes committed by California employers. The CTEP investigates employers who engage in the underground economy.

The CTEP partners with other law enforcement agencies having shared goals for investigation, prevention, detection, and criminal prosecution. The CTEP participates on employer/workers' compensation insurance task forces in Orange County, Riverside/San Bernardino County, San Diego County, and Ventura County. The CTEP's partners include: district attorneys, California DOI, DIR/DLSE, FTB, BOE, CSLB, and Alcohol Beverage Control (ABC). The task force identifies and prosecutes employer fraud, including workers' compensation insurance, payroll tax, personal income tax, and prevailing wage violations.

The CTEP receives leads from many sources including prosecutors (county, State, federal), State agencies (DOI, FTB, BOE, CSLB, DIR/DLSE, Department of Motor Vehicles, Department of Consumer Affairs), federal agencies (DOL, Federal Bureau of Investigations, U.S. Customs, U.S. Postal Service, and the IRS), local law enforcement (city/county, California Highway Patrol), informants (former employees, employer community, citizens), and from within EDD.

Table 5

| Criminal Tax Evasion 2004 Program Results | | |
|--|------------|----------------------------|
| | # of Cases | \$ of Tax Liability |
| Payroll Tax Evasion Cases in Progress | 126 | \$32,486,822 ¹⁴ |
| Criminal Complaints Filed | 21 | \$13,351,117 |
| Criminal Prosecutions Completed | 27 | \$3,493,049 |
| Conviction Cases | 23 | \$3,497,100 |

Department of Industrial Relations, Division of Labor Standards (DLSE)

The DLSE is charged with the responsibility to vigorously enforce minimum labor standards to ensure California workers are not required or permitted to work under substandard, unlawful conditions. The DLSE also protects California's employers who comply with the laws from those employers who would attempt to gain an unfair competitive advantage, at the expense of their workers, by failing to comply with minimum labor standards.

The DLSE investigates complaints and takes enforcement actions to ensure employees are not being required or permitted to work under unlawful conditions. Enforcement action taken by DLSE investigators involves the enforcement of child labor laws, workers' compensation insurance coverage requirements, audits of payroll records, collection of unpaid minimum wages, overtime, as well as prevailing and other unpaid wages, issuance of civil and criminal citations, confiscation of illegally manufactured garments, and injunctive relief to preclude further violations.

The DLSE maximizes enforcement efforts through the use of focused enforcement programs designed to target employers committing flagrant violations or operating in the underground economy. The DLSE is committed to giving the economic advantage back to the law-abiding employer and to protect workers from unlawful labor practices. Two of these programs are the multi-agency TIPP and EETF programs, which focus on inspecting industries that operate regularly in the underground economy, such as janitorial services, agriculture, and construction. In 2003, the DLSE initiated a "Low Wage Task Force" to focus enforcement efforts on the garment industry, which has a history of labor law violations.

¹⁴ This is the estimated total tax liability.

Table 6

| Division of Labor Standards Enforcement 2004 Program Results | | |
|---|--------------|----------------------|
| Establishments Investigated | | 6,816 |
| Total Citations Issued | | 2,694 |
| Amount of Citations | | \$20,918,075 |
| Violation Citations Issued by Category | Cases | Tax Liability |
| Workers' Compensation Insurance | 1,296 | \$15,689,741 |
| Child Labor | 210 | \$326,250 |
| Cash Pay | 692 | \$3,350,650 |
| Minimum Wage | 100 | \$352,400 |
| Unlicensed Contractor | 27 | \$120,500 |
| Garment Manufacturing Penalties | 560 | \$830,127 |
| Overtime | 126 | \$248,407 |

During 2004, investigators from DLSE collected \$11,642,532 in wages owed to employees in California.

In addition to enforcement of specific Labor Code statutes and provisions of the Industrial Welfare Commission wage orders, the BOFE investigates complaints arising from violations of the State's prevailing wage laws and conducts payroll audits on behalf of California's workers for back wages owed. During 2004, investigations of violations of prevailing wage laws resulted in \$8,005,171 in wages for workers on public works projects. In addition to collecting wages owed for underpayment or nonpayment of prevailing wages, DSLE collected \$1,224,823 in civil penalties for wage and public works violations.

Department of Industrial Relations, Division of Occupational Safety and Health (Cal/OSHA)

The primary goal of the Cal/OSHA program is to reduce the threat of occupational injury and illness to California workers by creating a safe and healthful work environment and an informed workforce.

The Cal/OSHA seeks to achieve this goal through an interdependent mix of program elements. Foremost among these is the effective enforcement of standards with rapid abatement of hazards. Partnership programs, information services, employee education, and consultative services complement the enforcement effort.

Although Cal/OSHA's goals are not primarily directed towards the underground economy, Cal/OSHA education and enforcement efforts support goals of JESF in several ways:

- The Cal/OSHA works to protect workers by ensuring that they receive benefits to which they are entitled by law—including a safe and healthful workplace. The Cal/OSHA responds to employee complaints of unsafe working conditions and investigates reports of fatalities or serious injuries to workers in addition to conducting targeted inspections in high hazard industries to enforce safety and health regulations.
- The Cal/OSHA has participated in inter-divisional and multi-agency sweeps in the construction, agriculture, and garment industries.

- The Cal/OSHA penalties assessed as a result of enforcement actions add to the State's General Fund revenue.
- The Cal/OSHA enforcement actions enhance fair business competition by targeting noncompliant employers who create an unfair competitive advantage by evading safety and health laws.
- Participation in TIPP for garment and agricultural industries has been an effective way to focus scarce enforcement and consultative resources on the elimination of safety and health hazards in these industries. It is not possible to rely on complaints to trigger enforcement actions or to rely on employer requests for consultation in these industries.
- Construction worksites also present a problem for targeting safety and health hazards. Unlike other industries, which have permanent business locations, construction businesses frequently change job sites. By the time information is developed that a job site has started work, work at the job site has often been completed and an on-site inspection may not reveal any safety and health violations. Sweep inspections, either as part of an inter-divisional or multi-agency sweep or a sweep conducted by Cal/OSHA, have proven to be an effective method of targeting Cal/OSHA construction inspections.

While data is not available to identify specific data on joint activities with Strike Force partner organizations, Strike Force joint activities are represented in this data.

Table 7

| Division of Safety and Occupational Health 2004 Program Results | | |
|--|------------------|----------------------------|
| Establishments Investigated | 7,357 | |
| | Citations | Amount of Citations |
| Safety Violation Citations | 5,890 | \$27,210,768 |
| Health Violation Citations | 1,593 | \$4,815,773 |

Department of Consumer Affairs, Contractors' State License Board

The CSLB protects consumers by regulating the construction industry through policies that promote the health, safety, and general welfare of the public in matters relating to construction.

The CSLB accomplishes this by:

- Ensuring that construction is performed in a safe, competent, and professional manner.
- Licensing contractors and enforcing licensing laws.
- Requiring that any person practicing or offering to practice construction contracting be licensed.
- Enforcing the laws, regulations, and standards governing construction contracting in a fair and uniform manner.
- Providing resolution to disputes that arise from construction activities.
- Educating consumers so that they make informed choices.

Protection of the public shall be the highest priority for the CSLB in exercising its licensing, regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount.

Table 8

| Contractors' State License Board Enforcement State Fiscal Year 2003-2004 Program Results | |
|---|--------|
| Complaints Received | 20,108 |
| Complaints Closed | 20,510 |
| Total Complaints Closed to Citation | 2,313 |
| Licensee | 744 |
| Nonlicensee | 1,569 |
| Complaints Closed to Arbitration | 448 |
| Mandatory Arbitration | 318 |
| Voluntary Arbitration | 130 |
| Complaints Closed to Criminal Referral | 1,226 |
| Licensee | 140 |
| Nonlicensee | 1,086 |

Statewide Investigative Fraud Team (SWIFT)

In response to joining forces to combat the underground economy, the CSLB expanded the duties of its nonlicensed activity unit and formed the SWIFT. In addition to their normal investigative authority, investigators in the unit have the authority to issue Notices to Appear in court for misdemeanor violations of the Contractors' License Law and related laws. The SWIFT investigators conduct proactive investigations including covert sting operations and sweeps of construction sites to verify compliance with license, tax, and labor laws. The SWIFT investigators often team up with other Strike Force agencies, such as EDD and DLSE, for special enforcement operations.

In 2004, the CSLB conducted 34 sting operations and seven sweep operations.

- The sweeps were conducted with DOI, DLSE, and EDD. Seven sweeps were conducted statewide resulting in CSLB issuing 25 administrative citations for contracting without a license, and one licensee citation for aiding and abetting an unlicensed contractor. The district attorney's office issued one notice to appear into the criminal court for workers compensation violations. The DLSE issued citations totaling \$13,000 for workers' compensation insurance violations, and EDD initiated three audits for possible tax violations.
- The 34 sting operations resulted in the issuance of 329 misdemeanor citations and 21 felony arrests. The alleged violations cited include, but are not limited to, Business and Professions Code Section 7027.1, Illegal Advertisement; Section 7027.3, fraudulent use of a contractor's license not belonging to individual; Section 7028, contracting without a license; and Section 7125.5b, failure to have workers' compensation insurance.

- 1,057 nonlicensee cases were referred to local district attorneys' offices.
- 1,487 nonlicensee administrative citations were issued, assessing a total of nearly \$2 million in civil penalties.

Bay Area Blitz

In February 2004, in conjunction with National Consumer Protection Week, CSLB SWIFT conducted a major offensive on the underground economy through a series of coordinated sweeps and stings in four Bay Area cities. Members of DLSE and EDD assisted in the sweeps and district attorney insurance fraud investigators assisted in the stings. A record total of 81 persons were arrested or cited for nonlicensed activity, workers' compensation insurance, and other violations.

Swimming Pool Consultant Sting

There is a growing problem with nonlicensed individuals offering their services as consultants who convince homeowners to construct their projects and obtain permits as owner-builders. Often, the consultant is really acting as a general contractor by locating, negotiating, coordinating, scheduling, and supervising subcontractors and material suppliers. The consultant charges a fee and instructs the homeowner to pay the subcontractors and suppliers directly. Since homeowners do not typically report payments to subcontractors by filing IRS Form 1099, these subcontractors fail to report the payments as income and often pay their employees cash off-the-books for these jobs. In June and July 2004, the CSLB SWIFT conducted a sting operation in Roseville, targeting swimming pool consultants. A total of 16 contacts were made resulting in 5 arrests, 1 referral to the district attorney for criminal prosecution, 1 licensee citation, and 6 nonlicensed administrative citations. Information developed during the operation suggested two large-scale swimming pool and landscape companies operating in the Central Valley had been employing dozens of salespersons and paying them as independent contractors. The information was referred to EDD for a potential audit.

Southern California Wildfires

In response to the Southern California wildfires that destroyed 3,577 homes, the CSLB's enforcement team launched into action, joining forces with the DOI, district attorneys' offices, county sheriffs, and the Office of Emergency Services to form a multi-jurisdictional Disaster Fraud Management Task Force (Task Force). The CSLB's participation in the Task Force included:

- On October 31, the CSLB staff participated in the task force's first sweep covering the disaster areas in San Diego County. More than 30 investigators from participating agencies conducted the sweep.
- On November 5, the CSLB staff participated in a sweep of San Bernardino and Riverside Counties, conducted by more than 100 investigators from participating agencies.
- On December 5, the CSLB staff participated in a San Diego County sting that resulted in felony arrests of three unlicensed contractors.
- On December 11 and January 23, the CSLB staff participated in a San Bernardino County sting that resulted in a total of 21 felony arrests, including 11 unlicensed contractors.

- On February 4-5, 2004, the CSLB staff participated in San Diego stings that resulted in 13 grand jury indictments.
- Staff continue to routinely visit the affected counties, verifying licensure compliance at active job sites.

Moreno Valley Sweep

The CSLB staff and investigators from the district attorney's office, EDD, and DLSE performed a sweep in April 2004. The partnering effort was a tremendous success with CSLB staff issuing 12 administrative citations for contracting without a license and one licensee citation for aiding and abetting an unlicensed contractor. In addition, the district attorney's office investigator issued one notice to appear in criminal court for workers' compensation violations, DLSE investigators issued citations totaling \$13,000 for workers' compensation violations, and EDD opened three audits for possible tax violations.

Franchise Tax Board, Investigations Division

The FTB Investigations Bureau receives more than 3,000 leads for criminal investigation annually. With a staff of 40 sworn peace officers, they are able to keep between 400 and 500 cases in active investigation status or going through the criminal court system at any one time.

The FTB's Investigations Bureau participates in Strike Force operations on a priority basis based on available resources. The Investigation Bureau has over 98 percent conviction rate on those cases sent to the prosecutor's office. While this is an unusually high success rate for a law enforcement team, it is indicative of only pursuing the most viable cases.

The FTB's Investigations Bureau has made assertive efforts to pursue those involved in the underground economy by looking to new and viable leads. They have had success with financial and business reporting documents filed through the U.S. Treasury's Financial Crimes Enforcement Network. This has resulted in identifying a caseload representing over \$760 million in unreported income currently assigned to investigators. Within the last year, the Investigations Bureau has conducted investigations generating assessments of taxes, penalties, and interest of \$15.8 million.

The FTB actively participated in Strike Force efforts to enhance the sharing of information between agencies to combat the underground economy. The FTB's efforts in information sharing are limited by statutory mandates that limit the release of FTB data for anything other than a tax administration purposes. However, FTB pursues data from other State agencies for use in its audit, collection, and noncompliance activities.

The State's tax agencies work cooperatively together maximizing available resources to enforce existing State income, employment, sales, use, and other tax laws and programs. This data sharing allows each agency to take advantage of the expertise and program efficiencies developed by the other agencies. For instance, FTB's Fraud Unit has determined that the use of EDD's wage data has resulted in a reduction of \$717,000 in fraudulent refunds issued as a result of fraudulent W-2 wage claims. The FTB's Business Entity and Field Collection estimates that BOE data contributes approximately \$25 million per year in revenue by shortening the time and increasing the accuracy of account resolutions. Finding the most current information related to sales tax, use tax, assets, and ownership enables staff to make quick and accurate decisions in managing accounts. The information sharing between the three agencies reduces investigative costs for each Agency's collection staff. Continued exploration of the data developed by all three agencies will provide future enhancements to each agency's respective collection and audit programs, while reducing costs associated with skip tracing and account investigations.

In 2002, the AB 63 (Chapter 914, Statutes of 2001) enacted Revenue and Taxation Code Section 19551.1. Under this statute, the FTB is authorized to share specific tax data with cities for the administration of city business license programs. In 2004, 54 cities received this data. The cities have reported phenomenal results in their efforts to identify businesses that are noncompliant with local government business license requirements.

The largest city participating, the city of Los Angeles, with a population of approximately 3.7 million, has reported revenue collection of \$20.1 million, and the creation of 44,603 new accounts that their city business tax department directly attributes to the information shared under this program. This represents approximately a 15 percent increase in the number of sustainable new business licenses for the city. A smaller city, the city of Newport Beach, with a population of approximately 90,000, has realized approximately \$500,000 in additional revenue and a 10 percent increase in the number of new business tax license applications also directly attributable to the information shared under this program. Other cities participating in the program have reported similar results in their attempts to curtail the underground economy in their areas. The program authorized under AB 63 has allowed local governments to identify people conducting business that would not be detected through other means. The program also provides the local governments' understanding of the underground economy within their jurisdictions. This program has enabled the local governments to identify schemes and practices to escape detection used by the underground economy.

SUMMARY OF INFORMATION REQUIRED BY SECTION 329 OF THE CUIC

This section includes information regarding blatant violations, publicity, hotlines, information sharing, and cooperation as mandated by Section 329 of the CUIC.

Blatant Violations and Common Schemes

The Strike Force has defined blatant violations as the most egregious cases where the payment of unreported wages were made to evade labor, licensing, and tax laws. In all cases, citations were issued by DLSE for the payment of wages without issuing the required payroll deduction statements and/or failure to provide workers with workers' compensation insurance coverage, and fraud or intent to evade determinations were made by EDD.

The Strike Force concentrates on implementing joint enforcement projects, which focus on administrative and civil, rather than criminal resolution. The EETF uncovered the following number of blatant violations in 2004:

- The EETF issued 4,031 Labor Code citations to 112 businesses for a total of \$1,007,750 for paying wages in cash without making the required payroll deductions.
- The EETF issued Labor Code citations to 221 businesses for a total of \$1,155,000 for failure to provide 1,155 workers with workers' compensation insurance coverage.

The following examples of blatant violation cases detected by the Strike Force include the most flagrant cases, cases where new and unique schemes used by businesses to tax, labor, insurance, and licensing laws were discovered, and where fraud or intent to evade determinations were made by EDD:

- An EETF agent and a Deputy Labor Commissioner of DLSE conducted an inspection of a landscape and pool contractor. The inspection was initiated as a result of information provided by the CSLB SWIFT to investigate possible labor law violations. Five workers were observed working at the job site at the time of the inspection, and all five were interviewed. The employer was registered with EDD; however, none of the workers were being reported. At the time of the inspection, the DLSE issued a \$5,000 citation to the employer for failure to provide proof of a valid workers' compensation insurance policy. A subsequent EDD audit revealed that the employer was previously audited and assessed for unreported wages. The tax auditor determined that the employer failed to report subject wages in the amount of \$2,565,023 paid to 43 unreported construction workers. The employer was assessed \$322,054 for unpaid employment taxes, penalties, and interest, including fraud penalties.

- An EETF agent and a Deputy Labor Commissioner of DLSE conducted an inspection on a cement importer. The inspection was initiated as a result of information provided by DIR to investigate possible labor law violations. The employer is registered with EDD but failed to file returns for one year. During the inspection, the employer acknowledged that he had five employees working for the company. The DLSE issued a \$5,000 citation for failure to have a valid workers' compensation insurance policy. A subsequent EDD audit validated the findings of EETF investigators. The tax auditor determined that the employer failed to report \$1,750,831 in subject wages to EDD. The employer was assessed \$199,490 for unpaid employment taxes, penalties, and interest, including fraud penalties.
- The TIPP conducted an inspection of a manufacturer of children's clothes and women's formal wear. The inspection was agent initiated based upon the observation of the business, the number of workers observed and the number of workers counted by the Los Angeles County Department of Health Services. A TIPP agent and a DLSE Deputy Labor Commissioner conducted the inspection. During the inspection, 16 workers were observed working. Prior to completing all the worker interviews, six workers left the premises. There were no citations issued at the time of the inspection. A subsequent EDD audit revealed that there were 14 unreported employees during the three-year statutory audit period. The employer failed to report \$740,766 in subject wages to the EDD. The employer was assessed \$102,258 for unpaid employment taxes, penalties, and interest, including fraud penalties.
- An EDD and DLSE joint agency investigation was performed as result of an anonymous complaint that was issued against a Southern California restaurant. The allegations against the restaurant stated workers were being paid cash without deductions, were not receiving overtime payment, and were required to conceal their overtime hours. As a result of the allegations, DLSE performed an investigation that discovered numerous workers were being paid cash without deductions taken from their pay. In addition, the DLSE required the business to perform a self-audit to compute actual wages, overtime, breaks, and split-shift premiums. The self-audit resulted in over \$115,000 in unpaid wages, penalties, and interest. During EDD's investigation, it was discovered that the restaurant was reporting workers to EDD. However, the restaurant owner paid all workers who could not provide proof of legal residency by cash without deductions taken from their pay. As result of the EDD audit follow-up, 29 unreported workers were discovered, \$1,062,108 in unreported wages were uncovered, and the employer was assessed \$273,214 in liabilities including fraud penalty and interest.
- Several security guards filed complaints claiming they performed services for a Southern California security guard company and did not receive their wages. As result of the allegations, it was discovered that the workers were not reported to EDD for payroll purposes, and the security guard company did not maintain valid workers' compensation insurance. A joint investigation by EDD and DLSE revealed that the company had been paying workers by check, taking deductions from their pay, and not reporting the workers' pay to EDD. The investigation also revealed that numerous wage payments were issued to the security guards but did not clear due to insufficient funds. As a result of the findings, the agencies discovered over 20 unreported workers with \$594,395 in unreported wages. In addition, assessments were issued by both agencies resulting in liabilities \$105,058 including fraud penalties and interest.

- An EDD and DLSE joint investigation was conducted on a Southern California restaurant. During the joint investigation, several workers stated they were paid cash wages without deduction statements, did not receive overtime pay, and did not receive annual wage statements. The investigation also revealed the restaurant was not registered with EDD and did not maintain active workers' compensation insurance. While being interviewed, the restaurant owner said that his bookkeeper told him on numerous occasions that he should properly report payroll for income tax purposes but that he refused. As result, the EDD and DLSE discovered 13 unreported employees who were paid \$572,795 in unreported wages. The business was assessed over \$80,000 in back taxes, cash pay violations, workers' compensation insurance violations, and fraud penalties and interest.

JESF Joint Criminal Prosecution

The Strike Force refers cases to members' criminal investigation organizations for potential criminal prosecutions. The JESF member agencies worked together to prosecute 27 cases during 2004. The following cases are examples of cases that JESF member agencies worked together to prosecute in 2004.

- In March 2004, a framing contractor was convicted of violating the CUIC for failing to file returns and providing false information; for failing to collect, account, or remit taxes; and the California Insurance Code for workers' compensation insurance fraud. The owners paid their employees in cash and did not report the wages to EDD, did not have the proper workers' compensation coverage, cashed other employers' checks, and returned the cash to the employer for a fee of 20 percent. The two suspects were prosecuted by the San Diego District Attorney's Office and were sentenced to five years probation, ordered to complete 400 hours of community service, and ordered to pay restitution to EDD. The tax liability is \$948,303. This case was investigated and prosecuted by members of the San Diego County Premium Fraud Task Force, which includes the San Diego District Attorney's Office, EDD's Investigation Division, DOI, FTB, and DIR.

This employer is among nine employers who were convicted of engaging in a conspiracy to avoid paying proper payroll taxes to EDD, committing payroll tax evasion, and workers' compensation insurance fraud. All suspects were ordered to pay restitution to EDD, FTB, and the proper insurance carriers. The suspects/owners of the businesses were sentenced to formal probation in lieu of incarceration on the condition that restitution would be satisfied. The total tax liability for all nine employers is \$1,628,940.

- In April 2004, an owner of a construction company was convicted of violations of the CUIC for failing to file returns and providing false information; failing to collect, account, or remit taxes; and of the California Insurance Code for workers' compensation insurance fraud. The two suspects were prosecuted by the San Diego District Attorney's Office. The suspects were sentenced to five years formal probation, ordered to pay restitution to EDD and the State Compensation Insurance Fund. Members of the San Diego County Premium Fraud Task Force investigated this case.

- In May 2004, owners of a construction company were convicted of violating the CUIA for failing to file returns and providing false information; failing to collect, account, or remit taxes; the California Insurance Code for workers' compensation fraud. The two suspects were prosecuted by the San Diego District Attorney's Office. One suspect received a sentence of five years formal probation, and the other suspect was placed on three years probation. The suspects were ordered to pay restitution in the amount of \$580,000 to the victim agencies. The amount of tax liability to be paid to EDD is \$180,000. Members of the San Diego County Premium Fraud Task Force investigated this case.

Publicity

Internet Sites

The EDD's UEO Web page, <http://www.edd.ca.gov/taxrep/txueoind.htm>, provides easy public access to the UEO hotline telephone number and email address for reporting suspected violations of tax, labor, and licensing laws. Information within the Web page provides the reader with an understanding of the importance of combating underground economy, including a description of the underground economy and an explanation of what the costs are to the taxpaying public. The JESF Annual Reports for 2000, 2001, and 2003 are available on this Web page. The 2003 JESF Annual Report was accessed 1,275 times since its approval in August 2004. In 2004, the UEO Web page was accessed approximately 19,921 times.

Other related Web sites:

| | |
|--------------------|--|
| DIR Internet Site | www.dir.ca.gov/DLSE/dlse.html www.dir.ca.gov/ |
| DOI Internet Site | www.insurance.ca.gov/docs/FS-ReportingFraud.htm |
| CSLB Internet Site | www.cslb.ca.gov/ |
| FTB Internet Site | www.ftb.ca.gov |
| BOE Internet Site | www.boe.ca.gov |
| DOJ Internet Site | www.ag.ca.gov/ |
| BAR Internet Site | www.smogcheck.ca.gov/stdhome.asp |

Presentations

Strike Force members actively pursue opportunities to make presentations to a variety of public and private groups and any other organization that may have an interest in the Strike Force's efforts to combat the underground economy. The purpose of these presentations is to educate the public about the mission of the Strike Force, publicize its accomplishments, heighten awareness of the types of services available from the Strike Force, and to solicit cooperation in Strike Force efforts. These presentations emphasize the need to eliminate unfair competition, the need to ensure that employees are provided the benefits to which they are legally entitled, the adverse impact the underground economy has on government revenue, and the value of partnering to effectively utilize limited resources.

In addition to making these types of presentations in 2004, Strike Force staff focused on networking with officials from business associations, labor organizations, local law enforcement agencies, and other governmental agencies for purposes of describing our program and soliciting investigative leads. In 2004, meetings, networking, presentations, and joint projects were conducted with over 200 entities representing federal, State, local government, local law enforcement, labor organizations, and private sector businesses and organizations. Attachment A contains a listing of entities that received presentations by Strike Force members.

Hotlines

Section 329 of the CUIIC empowers the Strike Force to establish procedures for soliciting referrals from the public, including, but not limited to, an advertised telephone hotline. The following hotlines are operating for the public to report violations of tax, labor, and licensing laws:

- In an effort to improve customer service and make it easier for the public to report violations of tax, labor, and licensing law, the Strike Force established a toll-free hotline in 1997. The number is (800) 528-1783. This number can be reached 24 hours a day, 7 days a week. Outside of business hours, an automated voice mail system answers the phone and records both messages and lead information.
- The Bureau of Automotive Repair (BAR) established a hotline for California residents to report violations of tax laws, labor laws, and other questionable business practices by automotive repair shops. The BAR staff screen calls and prepare special lead referral forms, which are forwarded to the appropriate Strike Force member agencies. The statewide number is (800) 952-5210.
- The CSLB established two hotline numbers in the State for reporting contractors who operate without a license, avoid payroll or income taxes, pay cash wages without a deduction statement, fail to pay minimum wage, or fail to provide workers' compensation insurance coverage. The number for Northern California is (916) 255-2924. The number for Southern California is (562) 466-6017.
- The BOE can be reached to report tax evasion on their Tax Evasion Hotline at 1-888-334-3300.

Information Sharing

Underground economy businesses constantly develop new schemes to avoid detection of their illegal activities. As these new schemes are identified, information regarding the schemes is shared with member agencies, business associations, and labor organizations. There is an ongoing need for Strike Force staff to be aware of the various types of schemes used in industries prone to underground economy activity. This knowledge facilitates the development of detection and enforcement techniques necessary to stop the illegal activities.

One purpose of the Strike Force is to facilitate and encourage the development and sharing of information to combat the underground economy. Staff from member agencies regularly share information and plan and coordinate Strike Force activities.

In 2004, the JESF Government Partners Committee was established. This committee meets twice a year to share information and coordinate the activities of the JESF. The committee will identify opportunities for JESF activities and will form workgroups, as needed, to develop and implement these activities.

Criminal Investigation Sub-Committee (CIS) – This sub-committee meets quarterly to share information on criminal investigations. Currently, the JESF CIS is charged with the development of a database that will allow member organizations to know which business are being investigated by the other member organizations.

Partnerships among member agencies to improve information sharing also have been established outside the umbrella of the Strike Force. These efforts include long-range projects to enhance information sharing, reduce administrative burdens, increase the accuracy of data, and identify noncompliant industries. Strike Force staff are participating directly in many of these partnership projects and are closely monitoring all of these projects.

Future plans for information sharing include the development of an Enforcement Calendar. The Enforcement Calendar, for JESF members only, will include a high-level listing of planned enforcement activities by each member organization. This will allow for better coordination of resources for joint enforcement activities.

Expanded Joint Cooperative Efforts

Cooperative efforts among Strike Force member agencies continue to evolve and grow stronger. The operations of EETF have forged closer ties and improved coordination of enforcement activities among EDD, DIR, BOE, and DCA. Within DCA, the CSLB, BAR, and the Bureau of Security & Investigative Services have been active participants in EETF operations. These partnerships and joint operations have improved program results in all the participating agencies thereby providing the agencies with incentives for continuing cooperation and expansion of existing relationships.

During 2004, Memorandums of Understanding (MOUs) were developed and signed by Strike Force member agencies to enhance cooperation and joint activities. These new MOUs include:

- The EDD entered into a new MOU with CSLB that will enhance cooperation between the two agencies. This MOU calls for each EETF agent to conduct field inspections jointly with a CSLB agent a minimum of one day per month.
- The EDD entered into an MOU with the DOI to provide leads from EDD's completed audits. Through this MOU, the DOI will target businesses that EDD has found have significant compliance issues. The DOI will investigate the businesses to determine whether there are violations of the Insurance Code.

In addition, joint efforts with other nonmember local, State, and federal agencies have increased. Joint operations are conducted on a regular basis with ABC and Grant Assistance Program (GAP), a grant program that assists local law enforcement agencies with enforcement activities directed toward problem establishments that sell alcohol. As a result of the success of joint ABC, EDD, DIR, and GAP operations, additional local law enforcement agencies throughout the State have requested the services of EETF. The EETF is also an active member of various local law enforcement task forces such as the Sacramento County Nuisance Response Team, Sacramento Valley Auto Theft Investigators, Southern California Employee Exploitation Task Force, and the City of Oakland's Alcoholic Beverage Action Team. As additional industries are added to the Strike Force target group, staff will liaison with the appropriate governmental agencies with regulatory or enforcement jurisdiction in those industries.

Strides have been made in increasing cooperation among all licensing, labor law, and employment tax enforcement agencies. A coordinated effort now exists that involves not only the Strike Force member agencies but also other local, federal, and State entities. Cooperative efforts are expected to continue and grow as the operations of the Strike Force become more successful and as other agencies become more aware that cooperative efforts breed success.

Outreach, Education, and Networking Efforts

State Departments

Board of Equalization

California Arizona Nevada District Office

California Department of Food & Agriculture

California Highway Patrol, Major Accident Investigation Team

Department of Alcoholic Beverage Control

- ABC- Special Operations

Department of Conservation

Department of Consumer Affairs

- Bureau of Automotive Repair
- Bureau of Barbering and Cosmetology
- Bureau of Home Furnishings & Thermal Insulation
- Bureau of Medi-Cal Fraud & Elder Abuse
- Bureau of Security and Investigative Services
- Chiropractic Board
- Contractors' State License Board
- Dental Board
- Division of Investigations

Department of Health Services

Department of Industrial Relations

- Division of Apprenticeship Standards
- Division of Labor Statistics and Research
- Division of Occupational Safety and Health
- State Compensation Insurance Fund

Department of Insurance

Department of Justice

- Bureau of Investigations
- Bureau of Medical Fraud & Elder Abuse
- Charitable Trust Division
- Division of Gambling

Department of Motor Vehicles

- Investigations Division

Department of Social Services

- Community Care Licensing Division
- Investigation Division

Franchise Tax Board

Governor's Medi-Cal Fraud Task Force

Horse Racing Board

Medical Board of California

Public Utilities Commission

- Household Movers

Sheriff's Departments

Kern County
Los Angeles County
Monterey County
Sacramento County
Santa Clara County
San Diego County
Stanislaus County

Police Departments

City of Anaheim
City of Bakersfield
City of Buena Park
City of Fresno
City of Fountain Valley
City of Garden Grove
City of Gilroy
City of Irwindale
City of Los Angeles
City of Los Gatos
City of Milpitas
City of Modesto
City of Orange
City of Sacramento
City of San Jose
City of San Luis Obispo
City of San Mateo
City of Santa Ana
City of Santa Clara
City of Stockton
City of Vallejo
City of Watsonville
City of Westminster

Union and Labor Organizations

Bricklayers, Tilelayers & Allied Craftworkers
California State Council of Laborers
Carpenters / Contractors Cooperation Committee
Cement Masons Union
Center for Contract Compliance
Coordinated Mechanical Public Works Compliance
Foundation for Fair Contracting
Independent Roofing Contractors of California
International Association of Bridge, Structural & Ornamental Iron Workers
International Brotherhood of Electrical Workers
International Brotherhood of Teamsters Union
International Union of Operating Engineers
International Union of Painters & Allied Trades

Laborers' California Organizing Fund
Labor Management Cooperation Committee California Drywall & Lathing Industry
Landscape/Irrigation Union
Los Angeles County Building & Construction Trade Council
Maintenance Cooperation Trust Fund
Northern California Carpenters
Northern California Electrical Constructions Industry
Operative Plasterers & Cement Masons
Orange County Building & Construction Trade Council
Plumbers & Steamfitters
Piping Industry Progress & Education Trust Fund
Riverside / San Bernardino County Building & Construction Trades Council
Roofers Union
San Francisco Building Trades Council
Sheet Metal Workers International Association
Southern California District Council of Laborers
Southern California Heat & Frost Insulators Asbestos Workers Apprenticeships Trust
Southern California Labor/Management Operating Engineers Contract Compliance
Southern California-Nevada Regional Council of Carpenters
Southern California Painting, Drywall Finishers, Floor Layers and Glaziers Apprenticeship Trust Fund
Tile Setters Union
Ventura County Building & Construction Trades Council

Private Businesses/Organizations

California Association for Health Services at Home
City of Industry Chamber of Commerce

Other Governmental Organizations

Anaheim Unified School District
California Municipal Business Tax Association
Canada's Customs and Revenue Agency
City of Artesia
City of Bell Gardens
City of Bellflower
City of Capitola- Business Licensing Department
City of Cudahy
City of Downey
City of Fresno
City of Fullerton
City of Garden Grove
City of Glendora
City of Hawaiian Gardens
City of Industry
City of Irwindale
City of Lakewood
City of La Canada-Flintridge
City of La Habra
City of La Mirada

City of La Puente
City of Los Angeles

- Attorney Office – Consumer Protection Division
- Housing Authority
- Community Development Agency
- Office of Contract Compliance

City of Modesto-Business Licensing Department
City of Monrovia
City of Montebello
City of Monterey Park
City of Paramount
City of Pasadena
City of Pico Rivera
City of Rosemead
City of Sacramento-Business Licensing Department
City of San Dimas
City of San Jose

- San Jose City Attorney Abate Enforcement Unit

City of San Leandro
City of San Luis Obispo-Business Licensing Department
City of San Gabriel
City of San Marino
City of Santa Barbara-Business Licensing Department
City of Santa Cruz-Business Licensing Department
City of Santa Fe Springs
City of Sierra Madre
City of South El Monte
City of South Pasadena
City of Stockton-Business Licensing Department
City of Walnut Creek
City of West Covina
City of Ventura-Business Licensing Department
City of Vernon
City of Watsonville-Business Licensing Department
City of Walnut Creek
City of Whittier
County of Alameda, Regional Auto Theft Task Force
County of Calaveras Building Department
County of Los Angeles

- Community Development Commission, Labor Compliance Department
- Department of Health Services, Garment Inspection Program
- Department of Public Works

County of Monterey

- Building Department
- Recorder's Office

County of Sacramento, Public Works
County of Santa Barbara

- Business Licensing Department
- Recorder's Office

Santa Cruz County

- Building Department
- Recorder's Office

County of San Diego Health Department

County of San Joaquin

- Building Department
- Business Licensing Department
- Fire Department
- Recorder's Office

County of San Luis Obispo

- Building Department
- District Attorney's Office
- Recorder's Office

County of Santa Cruz, Gang Task Force

County of Ventura

- Area Housing Authority
- District Attorney
- Recorder's Office

Huntington Beach City School District

Huntington Beach Union High School

Internal Revenue Service

Los Angeles Unified School District

Long Beach Unified School District

Metropolitan Transportation Authority

Rowland Unified School District

Sacramento Regional Transit District

Santa Ana Unified School District

Santa Clara County District Attorney's Office

- Consumer Fraud Unit
- Regional Auto Theft Task Force
- Workers Compensation Fraud Unit

Stanislaus County District Attorney's Office

Temple City

United States Federal Government

- Department of Agriculture
- Department of Health & Human Services
- Department of Labor
- Department of Transportation



Arnold Schwarzenegger
Governor
STATE OF CALIFORNIA

Victoria L. Bradshaw
Secretary
LABOR AND WORKFORCE DEVELOPMENT AGENCY

Patrick W. Henning
Director
EMPLOYMENT DEVELOPMENT DEPARTMENT